

2 June 1983

NOTE FOR: DD/OP/PA&E

SUBJECT : Blue Sky Benefits

At our meeting today, you asked for a few comments on the "way out" benefits stuff that I felt D/PERS wanted. My few comments are as follows:

1. I have attached an article by Harvey on the Personal Time Bank (PTB) and Well Pay as cost effective Sick Leave options. Why not?
2. Most companies authorize first class travel, why not us? Why not send spouses along with employees to conferences and meetings?
3. Why not get out from under the Governmental Training Act so we can send folks for degrees? At least we should be able to weasle-word things enough to develop "Hard-To-Recruit" talent.
4. I have attached an excerpt from a 1980 Drucker book which addresses the need to optionalize benefits because of our work force heterogeneity. "A benefit to one is a cost to another." Let's make them all optional!
5. Why not have benefits geared to increasing grade and status?
 - a. Executive dining room.
 - b. Seniority leave.
 - c. Health club memberships.
 - d. Deffered income and trust options.
 - e. "HOV" passes for commuting.
 - f. Executive suite washrooms.

STAT

Two Alternatives to Traditional Sick Leave Programs

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Personal time banks and well pay programs could be the answer to rising sick leave costs.

The central purpose of a sick leave program is to provide short-term insurance to employees against loss of wages due to short-term illness. In many organizations today, sick leave costs (which are part of a fringe benefits package) have become an area of increasingly significant concern. Fortunately, certain alternatives to the traditional sick leave program are showing good results in many organizations.

Sick leave programs traditionally have the following common characteristics:

- 1) Paid sick leave accrues over time — usually every pay period.
- 2) Paid sick leave is used when employees must be absent from work due to short-term illnesses.
- 3) Upon termination of employment, no compensation is given employees for accrued sick leave.

Problems of Traditional Programs

There are many studies that suggest that sick leave programs may actually increase sick leave use by employees.¹ There is also empirical evidence that organizations with paid sick-leave programs experience almost twice the absenteeism of organizations without a program.² The central problem is sick-leave abuse, which

is estimated to increase each year.

Sick-leave abuse is the use of sick leave due to nonreality illnesses — slight fatigue, personal problems, weather, personal activities, and transportation problems — and results from postures taken both by employees and management. The employee posture is that sick leave is a right of employment and will be lost if it is not used. Management's posture, also a contributing factor to the abuse, condones "mental health days" (a euphemism for extra vacation time). Management is often unwilling to support supervisors in confrontations over the legitimacy of sick leave use.

Several costs are associated with the abuse of a paid sick leave program:

- 1) Absenteeism causes overtime, extra work for other employees, or over-staffing.
- 2) Overtime due to absenteeism can have a snowball effect by causing employees who worked overtime to reward themselves with a sick day (for a nonreality illness, which causes still more overtime).
- 3) Fringe benefit expenses continue to accrue when an employee is absent.
- 4) Maintaining and administering an absence control system can be costly.
- 5) Absenteeism (most are unscheduled with short or no notice) increases the amount of supervisory time devoted to its impact.
- 6) The resentment of employees who have to complete the work of an absent co-worker may lead to lowered produc-

tivity, more grievances, and turnover.

7) With absenteeism, there will be a drop in productivity and effectiveness because inexperienced personnel are performing the work of the absent employee.³

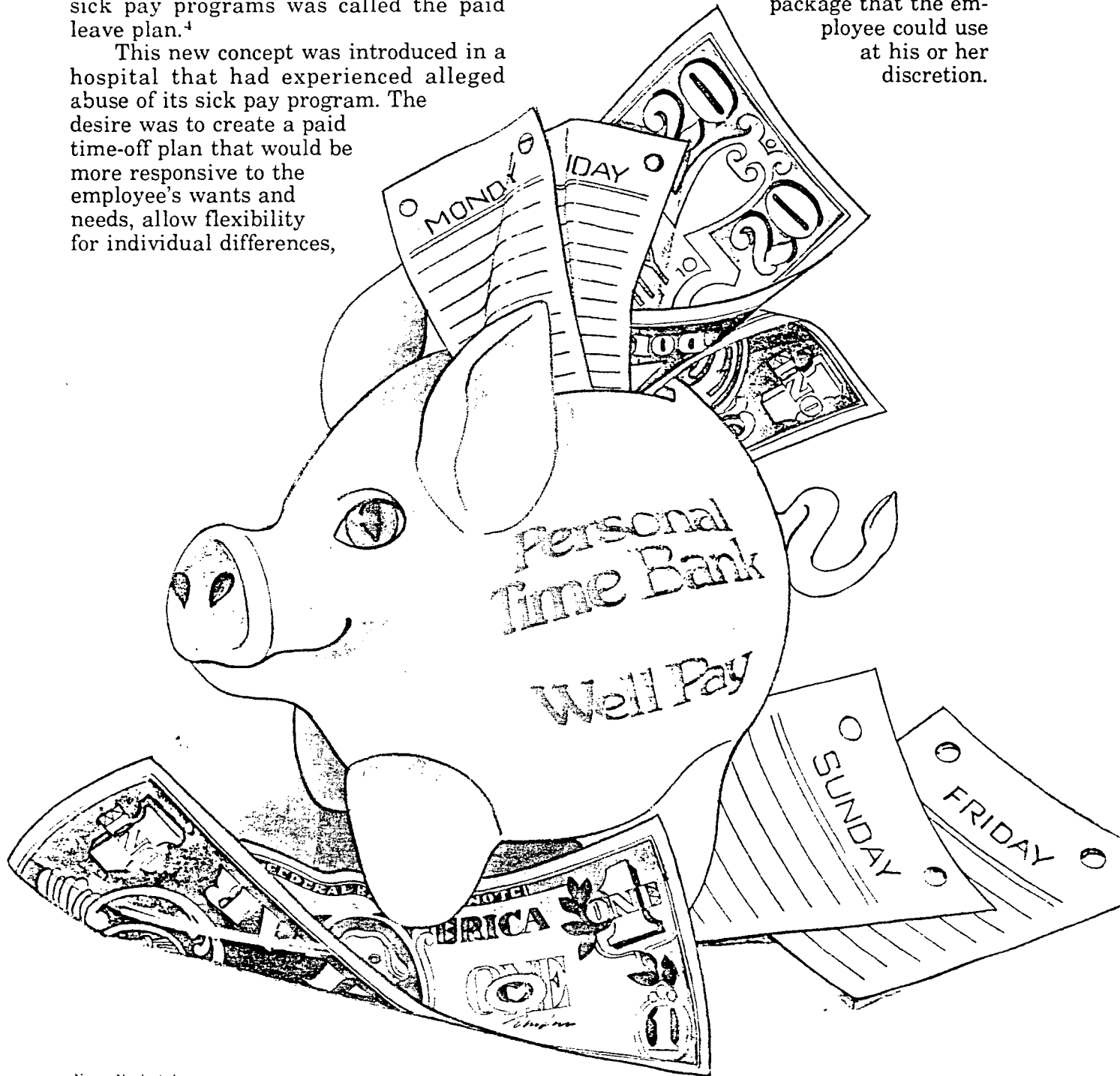
A Little History

It is important to briefly note the historical development of deviations from traditional sick leave programs. One of the first published deviations from traditional sick pay programs was called the paid leave plan.⁴

This new concept was introduced in a hospital that had experienced alleged abuse of its sick pay program. The desire was to create a paid time-off plan that would be more responsive to the employee's wants and needs, allow flexibility for individual differences,

and meet the needs of the organization. A review of the organization's records reveals that some employees constantly used sick pay while others did not — an obvious inequity. The review also indicated that the paid sick pay program actually provided incentive for employees to be sick.

The paid leave plan implemented combined the average number of sick days paid per employee, plus vacation time and holidays, into a total package that the employee could use at his or her discretion.



Nancy Nordenhok

The result was to take away the incentive to be sick, reward those who did not miss work, and increase the self-control of the employees by making them responsible for administering their own leave program. A separate sick leave provision for prolonged illness was included in the program, but the paid leave hours had to be used first. The major result was a marked reduction in absenteeism and a perceived increase in employee morale.

Another variation of the paid leave concept is sick leave banks. This arrangement allows employees to pool some of their compensated sick leave days in a common fund and draw upon the fund if extensive illness uses up their remaining time off. The sick leave bank is effective (reduces absenteeism) because employees are intent on protecting those jointly owned days in the bank, and there is psychological pressure on employees to get to work unless they are really sick.⁵

The Personal Time Bank

Two additional alternatives used to overcome sick pay abuse are personal time banks and well pay programs. The first alternative can be illustrated through a case study analysis of a hospital in the Midwest.⁶

The hospital had a history of unscheduled absences by its employees, who numbered 450. Many employees had a habit of excessive use of the sick leave program. When using the program, employees would call in to their supervisors on the day of requested leave. In a crisis organization such as a general hospital, personnel are critical. The act of requesting leave on the day of the leave does not give the supervisor much time to call in additional staff.

Many supervisors, as well as the personnel department, believed that many, if not most, of the absences were not for health-related problems, but were a means of obtaining a general day off. Upon inspection of personnel records, it was discovered that much of the use of sick leave was by the same employees. This created an unjust situation for those who chose not to use or abuse the sick leave (sick pay) policy. There was no reinforcement for either scheduling leave time or for nonuse of sick leave time.

The hospital's personnel department sought to eliminate this problem by

implementing a policy change. The policy change proposed was called the personal time bank (PTB) program. The personal time bank program involves giving employees the ability to control the use of all organizationally sanctioned leave time (vacation, sick, personal leave, and holiday) as they see fit. It was hoped that this change would reduce unscheduled time off and provide an incentive for employees to come to work. Further, the personnel department felt that the personal time bank would address the specific employee problems of the organization: employee dissatisfaction with leave policy and unscheduled absences.

Prior to implementing PTB, the organization allowed employees 12 sick leave days along with 10 vacation days and six holidays. An analysis of sick leave used in the prior year revealed that employees used an average of seven days per year. In developing the personal time bank, the organization provided seven holidays, 10 vacation days, five sick leave days, and two personal days, for a total of 24 days to be used any way the employee deems, except for the fact that five days must be taken consecutively each year (prior to PTB, holidays totaled six).

= 28

= 24

Some Organizational Results

In an organization-wide survey to assess employee satisfaction with leave policy after the personal time bank policy had been implemented for 18 months, the basic question asked was, "Does the personal time bank policy meet your needs?" Survey results indicate that the majority of the employees (296) felt that the program met or exceeded their needs, while 75 employees felt that it did not meet their needs. The personnel department felt this was a significant shift in employee attitude toward the leave policy.

One year after implementing the personal time bank, an examination of unscheduled absences was conducted. The data obtained was compared with that of the prior year. Unscheduled absences reported to the personnel department the year before the personal time bank policy totaled 1,935 — 4.3 per employee.

During the year of the change, reduction in unscheduled absences was noted as a significant result of the personal time bank. The overall cost incurred in imple-

menting the program was determined to be no more than the traditional sick leave policy because the average annual sick leave use was seven days (under the new policy seven days was provided: five for sick leave and two for personal days). The additional holiday provided was not a result of the policy change.

The Well Pay Program

A second case study illustrates the application of well pay in a private, nonprofit organization with 120 employees. The organization is located in the Midwest and provides employment and training activities for the jurisdiction it services.

This organization, like many others, had as its largest budget item salary and wages and employee benefits. The employee benefit package included an annual leave and sick leave accrual system. In a review of the sick leave accrual system, it was observed that some employees used sick leave as personal time. As soon as sick leave accrued (one day a month), it was used. Further investigation revealed that since sick leave (unlike annual leave) was not paid to terminating employees, there appeared to be a "if I don't use my sick leave, I'll lose it" attitude.

The investigation found that absenteeism cost the organization, in the year prior to the leave policy change, approximately \$41,000. Results revealed that current sick leave patterns reflected excessive one-day absenteeism. Management found an answer to their sick leave dilemma: well pay.

The well pay concept reinforces or rewards employees for not being absent or sick. The basic premise is to increase the effectiveness of an organization by encouraging employees to be on the job (or discouraging unnecessary, nonreality illnesses). The objectives of well pay include:

- offering employees an incentive to stay well
- lowering the absenteeism rate due to illness
- improving productivity by decreasing absenteeism

In application, the well pay program replaces the traditional sick leave plan by giving a bonus to employees who stay well for four consecutive weeks of good attendance and by discontinuing sick pay.

Features of the Program

At the beginning of its 1981 fiscal year, the organization began the well pay program. The program contained the following features:

- 1) The current accrual of sick leave would be discontinued.
- 2) The well pay policy would pay a bonus to employees who stay well (no absences) for four consecutive weeks.
- 3) Pay for absences would be discontinued for the first eight hours of absence due to illness.
- 4) Employees who are not sick for two consecutive pay periods, or four weeks, would receive a bonus of four hours pay.
- 5) Any illness time beyond eight hours would be paid in full until the disability plan began (two month's waiting time).

Thus, the sick leave accrual was replaced with a system that provided an incentive to be on the job and protection against serious illness. The key features are being paid for being on the job (carrot) and discouraging casual absences by non-payment of the first eight hours of absences (stick).

At the end of the year (one year after well-pay plan had begun), a survey was conducted to determine the positive or negative impact the well-pay plan had on employees and supervisors. The survey response rate was 89%. The well pay plan was not well received initially, but when asked which program they chose (sick leave vs. well pay), well pay was overwhelmingly accepted by employees.

Another key element in the survey was supervisor attitudes. Supervisors indicated that the program was somewhat effective in increasing productivity and reducing absenteeism as compared to the sick leave system. In addition, the supervisors were very satisfied with the well pay plan, with 85% indicating they were moderately or very satisfied.

Comparison of the Alternatives

Although direct comparisons of these two alternates to sick leave is inappropriate due to differing assessment methods, comparison observation can be cited. As noted, both methods aimed to reduce absenteeism (or unscheduled absences) and increase employee satisfaction

MANAGING IN TURBULENT TIMES

by Peter F. Drucker

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I have been looking
years. I have been

running the fourth grade in school or the night shift at the hospital. I know how to sew—I made all the clothes for my brother's children for twenty years. But when I applied for admission to the nuns, they put me into an elementary sewing class and gave me a three-hour lecture on how to boil water."

—And for Benefit Options

As a result of one hundred years of brainwashing by labor leaders, employers have come to believe in uniform benefits. They all complain about their cost. The "fringes" today are almost as wide as the base wage itself. Yet much of the money conveys little benefit to the intended recipient.

The married woman whose husband has a health insurance plan at his place of work receives no benefit from her health insurance. However, one way or another, 8 to 10 percent of her salary is withheld. (For even if the employer pays 100 percent, the money still comes out of the only available pocket, that of the employee.) The same woman pays 6 to 8 percent of her income into a company pension plan from which she is unlikely ever to receive a penny, if only because, as a married woman, she is unlikely to stay around long enough to qualify. Above all, she has to pay full Social Security. Yet under the American system—and other countries are none too different—she will be better off, twenty years hence, to apply for old age benefits as the dependent of her husband, than to apply for benefits on the basis of her own earnings. One way or another, the pension systems of all developed countries share the same bias against the married working woman.

What is urgently needed is a benefits policy that accepts the heterogeneity of the labor force in the period of population changes. "Benefit" to one employee is only cost to another.

The proportion of wage and salary any one employer is willing and able to put aside for employee benefits should be the same for every employee, or for every category of employees. But where the money goes should depend upon the needs, the circumstances, the family situation, the life cycle of the individual employee. The benefits policy should take the form of a set of options, from which the individual employee can choose the total package that gives him or her the most for the money available. The choice as to which benefits are the right ones for this or that individual is then best made by the individual alone.

This idea is anathema to union leaders, who depend on uniformity and who therefore subordinate the majority of members to the largest single minority. It is anathema to government bureaucrats, who always believe they know best what is good for the individual. It will also be resisted by employers, who think that administrative convenience is the ultimate criterion of benefits and of personnel policies all told. But it will be increasingly necessary. Indeed, the employees themselves in the developed countries are going to insist that they be given freedom of choice as to what benefits are optimal for them: freedom of choice on second careers; freedom of choice as to whether to retire at a given age or to stay on working; freedom of choice very largely in their job assignments as well. This is, after all, the essence of being a knowledge worker—and increasingly it will be the knowledge workers who will determine, in the developed countries, the shape of personnel and benefit policies to come.

The End of Mandatory Retirement Age

In all developed countries, it will become a matter of economic survival that retirement age be postponed and that retirement be made flexible and a matter of personal decision. Society and economy simply cannot support the number of

people who would otherwise older people will increasingly have the power to enforce their

In the United States in 1960 work for every person over six to one. It will be close to two point out that this tremendous "dependent" people of old age sharp drop in the number of politically, socially, and economically. The worker who receives an amount and who then has to pay for that he is paying for an "alien" paying for his own family. amount of money withheld from somebody who is now retired this is compulsory taxation being forcibly taken away.

The people at work are going are not at work although they are capable of being so. Equal people will become an unbearable be resented and resisted.

Unless we extend working will also be building inflation every developed country rather than to save. The money the paychecks of the young pay for older people there is ing power. The younger generationary pressures as they demand so as to compensate them for the older people. In the will become unbearable.

In every developed country